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THE MAGAZINE FOR GROWING COMPANIES

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HOW TO FINANCE ANYTHING

FROM NEW BUSINESSES TO NEW PRODUCTS ▪ 26 WAYS TO TAP INTO HIDDEN SOURCES OF CASH ▪ AN INC. USER'S HANDBOOK

OF A START-UP • GOOD FORM
OMMERCE,' BY PAUL HAWKEN

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COVER ILLUSTRATION
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MARTY BRAUN

The Inc. FaxPoll™

IS YOUR BANK FAILING YOU?

Times are tough. Really tough.

And most of you say banks aren't making things any easier.

71%

No

ARE YOU SATISFIED WITH YOUR CURRENT BANKING RELATIONSHIP(S)?

YES

29%

One of you paraphrased Mark Twain, defining a banker as "a friend who lends you an umbrella and asks for it back when it looks as if it's going to rain." That certainly sums it up for most of you. No matter how long you've been in business or what your sales are or whether or not you are profitable, the vast majority of you are dissatisfied with your banking relationships. And nearly three-quarters of those who are not satisfied think their bad banking relationships pose a serious threat to their business and an impediment to growth: "They told me I had to stop growing or sell my company. They act like an adversary, not a partner."

Some *are* happy with their banks and offered tips on how to keep your bank interested in you: "We have relationships with two other banks—this keeps them all very interested in us." "It works both ways. Try to refer some business their way."

Changing banks doesn't seem to help. Of those who hadn't shopped around, 69% were dissatisfied. Of those who had, 74% were still not pleased. "There's no point in changing banks," one of you said. "The others are all the same." On the other hand, contact with the *same* person seems to be a predictor of how satisfied you are with your bank: of those who liked their banks, 52% hadn't had any change in bank contact over the past three years. Of those unhappy with their banks, 58% had experienced two or more contact changes.

HOW OFTEN HAVE YOU CHANGED YOUR PRIMARY BANK IN THE PAST THREE YEARS?

Not at all	65%
Once	23%
Twice	8%
Three times or more	3%

HOW OFTEN HAS YOUR PRIMARY-BANK CONTACT CHANGED OVER THE PAST THREE YEARS?

Three or more times	30%
Not at all	30%
Once	22%
Twice	18%

Banks are demanding more of you, no matter how long you've been around. In fact, it seems companies that are more than 10 years old are even *more* likely to have additional requirements. For example, nearly half the companies 10 or more years old have had to increase collateral—compared with 30% of companies less than 3 years old.

Some blame the banks: "I'm paying for their poor real estate investments." But many fault the regulators who have "overreacted to the S&L situation." One of you quipped, "I want to know why the feds, who are trillions of dollars in the hole, are running anyone's business." But whoever is responsible, as one of you put it, "banks blame auditors—they blame Congress—we take the hit."

A lot of you are simply turning away from banks: "We are being more creative in finding money elsewhere in retaliation for being jerked around at our bank." Those looking elsewhere seem to favor that familiar well of private capital, including family and personal resources. And the smaller the company, the more likely you are to turn to those sources. Of companies with revenues of less than $100,000, 67% reported obtaining private funding, compared with 33% of companies with revenues of more than $10 million. Smaller companies are also more likely to form strategic partnerships. Larger companies are more likely to turn to leasing companies, suppliers, and finance companies.

At any rate, there are many options worth looking into. If all else fails, there's always plastic. As one reader put it: "Without credit cards, my company would be dead."

—Christopher Caggiano

HAS YOUR BANK DONE ANY OF THE FOLLOWING IN THE PAST YEAR?

Asked you to provide personal guarantees	75%
Asked you to file statements more regularly	54%
Reduced or pulled your line of credit	44%
Asked you to increase collateral	43%
Asked you to find additional equity	32%
Asked you to reduce borrowing	29%
Asked you to meet more stringent industry ratios	26%
Asked you to maintain a larger minimum deposit	19%

HAVE YOU SECURED CAPITAL FROM ANY OF THESE OVER THE PAST YEAR?

Private sources	54%
Leasing company	19%
Supplier	15%
Finance company	10%
Customer	9%
Federal lending program	8%
Strategic partner	8%
Others	7%
Limited partners	6%
Insurance company	5%
Factor	5%
Distributor	4%
Thrift institution	3%
Foreign bank	2%

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PROSPECTING

Desktop Target Marketing

RENTING MAILING LISTS HAS LONG BEEN THE WAY TO REACH potential customers. But as direct marketers know, there are drawbacks to renting: you don't know exactly what you're getting, and you get only one shot at the list. Now you can take prospecting into your own hands with the help of some powerful new personal-computer programs.

MarketPlace Business, one of the most notable entries, contains on compact disc information on more than 7 million U.S. companies, culled from Dun & Bradstreet's national database of businesses. The Macintosh-based program allows marketers to target prospects based on location, type of business by SIC code (up to eight digits), annual sales, number of employees, and telephone area code.

What's more, MarketPlace Business lets you check out the quality of a list before you buy it. And once you pay for the list (the program deducts credits from the user's prepaid metered account), you can use the names repeatedly throughout the year. The program is well suited for repeat mailings to CEOs of small businesses. (Most companies in the database have fewer than 25 employees.) Although it is not designed to single out various titles within a company, it does allow you to export lists to your own database so you can manipulate the data.

While no list provider promises 100% deliverability, the MarketPlace Business database is reportedly better than 90% accurate, and the company offers a 60-day refund guarantee.

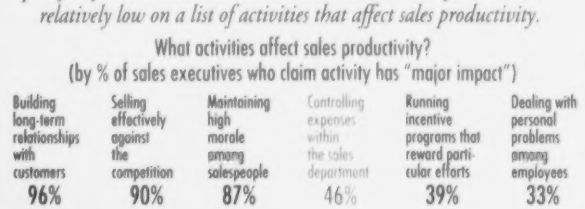
MarketPlace Business might not replace your list broker—but at a cost as low as 6¢ to 10¢ a name for unlimited usage, and considering the savings in time, perhaps it should. The program sells for $1,095, which includes four CD updates per year and 3,000 starter "credits," or names. The yearly renewal fee is $495; additional credits cost $500 for 5,000 names. Call MarketPlace Information at 617-894-4100. —*S. G.*

COST OF SALES

Are Sales Costs Killing You Softly?

Sales revenues are growing faster than sales expenses in 75% of the companies surveyed by Learning International, a training and business-research company in Stamford, Conn. But sales expenses are up in five out of six companies. The average increase in expenses over the past few years: 16.2%. Yet sales executives ranked "expense control" relatively low on a list of activities that affect sales productivity.

What activities affect sales productivity?
(by % of sales executives who claim activity has "major impact")



Source: "Sales Productivity in the 1990s," a survey of 300 sales executives, 76% with 99 or fewer salespeople. Learning International, Stamford, Conn., 1991.

PUBLIC RELATIONS

Pay As You Go PR

TOM BRANDON KNEW IT WAS time. Like the founders of many a young, promising venture, the CEO of Work Recovery, a $5-million publicly traded Tucson company, had an appealing product. Word-of-mouth publicity had gone a long way.

But outside of select hospitals, few people knew about Work Recovery or its $100,000 product, the Ergos Work Simulator, a machine that tests a person's physical capacity to work.

Still, Brandon was wary of public-relations firms. After interviewing numerous agencies that demanded up-front fees and fat retainers, he picked Primetime Publicity & Media Consulting, a Mill Valley, Calif., PR firm that charges only for the stories it places. "Primetime was willing to be held accountable and to be paid as it performed," says Brandon.

Results-only PR isn't new. Primetime was founded 10 years ago, and there are a handful of other PR firms that use a rate card. (Roughly speaking, a print feature will cost anywhere from a third to half the price of a color ad in the same publication. A 60-second feature on CNN will run about $9,000.) It's also not for everyone. Traditional PR firms that charge monthly retainers also offer more services than Primetime. With less than $5 million in sales, and a home-office crew of six, Primetime is smaller than many of its clients. Therefore, the company depends on CEOs to tell it what they want to say and where.

With a lot of input from Brandon, Primetime forged a strategy that last spring got Work Recovery airtime on several local TV shows and onto the pages of the *Wall Street Journal*, *Fortune*, the *Boston Globe*, and other widely read publications.

The plan accounted for Brandon's goals of reaching a mass audience of potential customers and shareholders. Primetime's approach:

- **Make the reporter's job easier.** Work Recovery press releases presented several strong story angles, from the newsy to the more personal. (Both Brandon and his father had suffered debilitating injuries.) "You don't pitch the same story to every publication," says Primetime's media director Bob Cullinan.
- **Follow through.** Once a reporter showed interest, "we made it as easy as possible for the person to do the story," says Cullinan. That included lining up 70 centers around the United States where journalists could try the Ergos for themselves.
- **Know when to back off.** "With the *Wall Street Journal*, we just kept calling different reporters until we found a sympathetic ear," says Cullinan. "We gave the writer all the information and then called back just enough to work out the gray areas."

As a result of 10-plus "media hits," Work Recovery increased its shareholder base threefold, Brandon notes. And each time the company appeared in print or on TV, inquiries shot up. "This broke us out of the regional mold into the national arena." As for the folks at Primetime? They got paid. —*S. G.*

TAX STRATEGIES

Global Tax Tips

It takes some ingenuity for U.S. companies to protect against tax disadvantages when they do business overseas. (See chart below.) Some tips for the various stages of international expansion:

• **Export.** "This is the only type of international expansion that the U.S. tax code encourages through a tax incentive," says Robert Patrick, director of Price Waterhouse's international tax practice in Washington, D.C. Any export revenues earned by a company classified by the IRS as a "foreign sales corporation" will be taxed at a rate of about 29%, rather than the U.S. standard corporate rate of 34%.

• **Joint venture.** Because of combined potential taxes, U.S. companies with revenues from joint ventures with a foreign company might face *more* than the domestic 34% rate. To avoid that, Patrick advises, U.S. companies should own at least 51% of the joint venture, which frees them of the foreign-tax-credit limitation.

• **Foreign subsidiary.** When U.S. companies set up foreign subsidiaries, their overall tax rate may go higher than 34%, since foreign subsidiaries of U.S. companies get taxed by both the host country and the IRS. Patrick advises charging as many expenses as possible to the foreign subsidiary. Your subsidiary may then be able to take advantage of tax deductions offered by the host country, ideally offsetting the combined tax rates.

• **Foreign holding company.** If you're planning multiple European subsidiaries, consider incorporating in one country a holding company that owns and funds all those subsidiaries. Under 1992 European Community rules, that holding company will be exempt from a 10% to 15% withholding tax traditionally imposed by European tax authorities on any income distributed from a subsidiary of one nationality to a parent company of another. —*J. A. F.*

INTERNATIONAL BUSINESS

How Foreign Income Is Taxed

HERE'S SOME DISCOURAGING NEWS FOR COMPANIES INTERested in diversifying into international operations: Thanks to some financial disadvantages imposed by U.S. tax laws, it may be tough to compete on price and services against corporations headquartered in Europe, Japan, and Canada. According to a recent survey by Price Waterhouse, the United States' effective tax rate* on foreign income is, on average, a hefty 6% higher than that of competing countries. Combine that with the tax surcharges many foreign countries apply to funds earned in their countries, and overall tax rates may rise higher still—making it clear that U.S. companies must aggressively plan to control international tax bills.

PARENT CORPORATION HEADQUARTERS	EFFECTIVE TAX RATE ON FOREIGN INCOME
UNITED STATES	35.2%
GERMANY	31.8
CANADA	31.1
JAPAN	29.5
UNITED KINGDOM	29.3
NETHERLANDS	28.6
FRANCE	25.1
AVERAGE, EXCLUDING U.S.	29.2

*The effective tax rate is measured as total federal income taxes paid to home and host countries as a percentage of pretax source-country earnings and profits.

Source: "U.S. International Tax Policy for a Global Economy," Price Waterhouse, April 1991.

COLLECTIONS

Making Salespeople Collect

WHEN STEVEN WILSON STARTed his Bettendorf, Iowa, company, Mid-States Technical Staffing Services, six years ago, he made an unusual decision: to require his six salespeople to assume primary responsibility for collecting funds due from their own clients. The results have been impressive. With revenues now around $4 million, Mid-States—which leases engineer services to corporate customers—averages a 20-day collection cycle. And the company has failed to collect on only two invoices, both in situations in which clients declared bankruptcy.

On a weekly basis, the company sends invoices to clients for all services performed during the past week. "The first invoice goes to the salesperson as well as the client. Then we encourage the salesperson to track that invoice, so that he learns exactly where it will flow within the client's organization—which includes details like who must sign off on it; what backup information will be required; and how soon, during the normal course of action, we can expect to get paid," explains Wilson.

The goal is to identify potential glitches early. "Our terms are net 10. If we're slated by a client's accounting department to be paid at, say, 25 days, our salesperson has the option," Wilson says, "of going to the client and imposing a rate increase if the company can't pay us as quickly as we demand. Usually, the client responds by putting us on an accelerated payment schedule."

Every week each member of the sales force gets an individualized report from the accounting department, which updates the payment status of all the rep's invoices, by client. "Every new salesperson we hire is trained to pick up early warning signs from those weekly reports," says Wilson. Those might include a sudden stretch-out in a customer's typical payment procedures, or an invoice that appears lost in cases in which earlier and later bills have been paid.

At any sign of trouble, the salesperson gets in touch with the contact person within the client corporation. On those rare occasions when invoices become six weeks overdue, Mid-States' salespeople personally notify their contacts that services will be halted by the following Monday.

"The sales force told me early on that they didn't want our accounting department approaching their contacts in a potentially negative manner," says Wilson. "This way sales reps can do everything possible to preserve good relations with their clients." And salespeople don't seem to jeopardize rapport with customers by chasing after invoices: "People who contract for our services value them, so they don't blame us for wanting our money," says Wilson. "They usually blame their own accounting people for failing to pay on time."

Another reason salespeople like the system: Wilson calculates sales commissions, in part, on the speed at which an individual's invoices get paid. "This helps convey an important lesson to our salespeople," he says. "What makes a business successful is profits, which include speedy collections, and not just sales." —*J. A. F.*

THE AMERICAN DREAM

BUSINESS FOR SALE—SEASIDE ANTIQUES AND CRAFTS SHOP

THE BUSINESS Charming 1,275-square-foot, six-year-old retail boutique, filled with one-of-a-kind antiques, curiosities, and handcrafted furnishings, located in the California coastal community of Cambria (population 5,000), not far from Hearst castle. The owner and her son do the risky work of buying the store's merchandise, and operate the store seven days a week (10 a.m. to 6 p.m.) with the help of two part-time employees.

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$[illegible]	$[illegible]	$[illegible]
Record-keeping fashion	$[illegible]	$[illegible]	$[illegible]
[illegible] depreciation			
and other expenses			$[illegible]

PRICE $230,000

OUTLOOK Businesses like this aren't large, but the number of them is. At last count there were 30,000 antiques and collectibles dealers in the United States, as well as 45,000 specialty gift retailers—ringing up estimated annual sales of $267,000 per store. This operation, in what is reputedly the best location in Cambria's historic east village, has virtually no competitors and has cemented strong purchasing relationships with half a dozen local artists—an arrangement that boosts gross margins by all but eliminating inventory shipping costs. Its 44% net margin before owner compensation is outstanding; give yourself a salary, and you should still be comfortably above the industry average of 10%.

PRICE RATIONALE Price includes approximately $107,000 worth of inventory, a 1986 Dodge van used for deliveries, and a lease (up for renewal in 1994). Insiders say pricing schemes are virtually nonexistent in this sort of cottage industry filled with right-brain individualists. Three to four times earnings, however, would be a reasonable starting point, making the asking price of this store appear fair.

PROS A chance to become the arbiter of taste in a lovely seaside village—where you'll find plenty of visitors ready to debate the finer points of trompe l'oeil and Old World refurbished iron furniture. And since the store's success depends on its owner's talent for buying what will sell, if your taste is good, you will come up a winner.

CONS If your taste is bad, you won't. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

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